

Message Text

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E.O. 11652: N/A
TAGS: OECD, ECON, NO
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC): REVIEW OF NORWAY

1. SUMMARY: COINCIDENCE OF EDRC NORWAY REVIEW AND HIGH LEVEL CONFERENCE ON YOUTH UNEMPLOYMENT CUT INTO ATTENDANCE AT EDRC, BUT DID NOT HARM FRANK AND INTERESTING DISCUSSION WITH NORWEGIAN DELEGATION, HEADED BY ARNE OIEN, DIRECTOR GENERAL OF THE MINISTRY OF FINANCE (ALSO JOHN TVEDT, BANK OF NORWAY; IVAR STUGU, MINISTRY OF COMMERCE, MRS. SKARD-GRESSUM, MINISTRY OF FINANCE). DISCUSSION CENTERED ON "OVER-ADJUSTMENT" OF NORWEGIAN COMPETITIVE POSITION TO ANTICIPATED OIL INCOME (EXCESSIVE DOMESTIC INFLATION AND KRONA APPRECIATION) AND "UNDER-ADJUSTMENT" OF DOMESTIC ECONOMY TO NEW COMPETITIVE POSITION (EXCESS DOMESTIC DEMAND, EMPLOYMENT SUBSIDIES). NORWEGIAN DEL READILY AGREED WITH SECRETARIAT'S POLICY RECOMMENDATIONS, STATING THAT GOVERNMENT'S NEW POLICY PROPOSALS DURING
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FINAL DEBATE ON 1978 BUDGET WERE CONSISTENT WITH THESE RECOMMENDATIONS. HE URGED EDRC TO ENDORSE NEW GON PACKAGE IN REVISED SURVEY. END SUMMARY

2. REVIEW OF 1977: NORWEGIAN DEL AND SECRETARIAT IN GENERAL AGREEMENT ON CAUSES OF FORECASTING ERRORS FOR 1977, NAMELY THAT (A) EXPORT EARNINGS WERE MUCH WEAKER

THAN EXPECTED, IN PART DUE TO "ACCIDENTAL" FACTORS IN OFFSHORE SECTOR, BUT PRINCIPALLY DUE TO LOSS OF COMPETITIVENESS IN TRADITIONAL "MAINLAND" NORWAY EXPORT SECTORS; (B) "MAINLAND" IMPORTS REMAINED HIGH DESPITE SLOWDOWN IN "MAINLAND" EXPORTS, INDICATING GREATER IMPORT PENETRATION OF DOMESTIC MARKETS AND DETERIORATION OF COMPETITIVE POSITION OF IMPORT-COMPETING INDUSTRIES; AND (C) INVESTMENT WAS MUCH HIGHER THAN EXPECTED DUE PRINCIPALLY TO UNDERESTIMATION OF LAGS IN FULFILLING INVESTMENT GOODS ORDERS PLACED DURING OPTIMISTIC PERIOD IN 1976. MAINTENANCE OF HIGH LEVEL NON-RESIDENTIAL CONSTRUCTION BASED ON RELIABLE SURVEYS, BUT DESCRIBED AS PUZZLE TO NORWEGIAN FORECASTERS, PARTICULARLY IN LIGHT OF EXPECTED EQUIPMENT DOWNTURN. NORWEGIAN DEL ADDED THAT RECENT STATISTICS ON WAGE DRIFT (THIRD QUARTER PLUS OCTOBER/NOVEMBER) INDICATE DECELERATION WHICH IS GOOD OMEN FOR 1978.

3. OUTLOOK FOR 1978 AND THE MEDIUM TERM: BULK OF EDRC DISCUSSION FOCUSED ON COURSE OF NORWEGIAN ECONOMIC ADJUSTMENT TO OIL REVENUES, WHICH SEEN AS SOLE QUESTIONABLE FACTOR IN PERFORMANCE OF NORWEGIAN ECONOMIC POLICY. GENERAL AGREEMENT THAT NORWEGIAN DEMAND MANAGEMENT AND INCOMES POLICY HAS WORKED AS WELL AS COULD BE EXPECTED, WHEREAS PROBLEM AREAS WERE TRACEABLE TO INCOMPLETE ADJUSTMENT TO NEW REVENUES. TWO ADJUSTMENT PROCESSES LIMITED OFFICIAL USE

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WERE NOTED: FIRST, ADJUSTMENT OF NORWEGIAN COMPETITIVE POSITION VIA DOMESTIC INFLATION AND/OR APPRECIATION OF KRONA AND, SECOND, ADJUSTMENT OF DOMESTIC ECONOMY TO NEW COMPETITIVE POSITION. NORWEGIAN DEL FELT THAT FIRST ADJUSTMENT HAD PERHAPS ALREADY GONE TOO FAR AND TOO FAST, WITH EXCESSIVE LOSS OF COMPETITIVE POSITION EVEN BEFORE OIL REVENUES MATERIALIZED, WHILE SECOND ADJUSTMENT HAD BEEN RETARDED BY INDUSTRIAL POLICY, EMPLOYMENT SUBSIDIES, ETC., REFLECTING POLITICAL SITUATION. CERTAIN AREAS OF SOCIAL POLICY (E.G., JOBS FOR EVERYONE, FARM AND PENSIONER INCOMES), IN CONJUNCTION WITH ADJUSTMENT PROCESS, FIGHT AGAINST INFLATION AND GLOBAL RECESSION HAD, IN VIEW NORWEGIAN DEL, PERHAPS BEEN TOO AMBITIOUS. FOLLOWING PARAGRAPHS OUTLINE SPECIFIC ASPECTS OF GON APPROACH TO MEDIUM TERM AS INITIATED IN NEW 1978 PACKAGE AND EXPLAINED BY NORWEGIAN DELEGATION. NORWEGIAN DEL NOTED THAT DIRECTION OF 1978 POLICY CONSISTENT WITH RECOMMENDATIONS IN SECRETARIAT DRAFT AND URGED THAT FINAL VERSION OF SURVEY INDICATE THAT GON FOLLOWING RECOMMENDATIONS OF OECD.

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4. INDUSTRIAL POLICY AND EMPLOYMENT: NORWEGIAN DEL STATED THAT IN 1978, GOVERNMENT WOULD REDEFINE THE GUIDELINES FOR INDUSTRIAL POLICY TO ELIMINATE NON-COMPETITIVE FIRMS, THUS CONTRIBUTING TO RESTORATION OF BALANCED EXPORT PERFORMANCE. HE ARGUED THAT BASIC PROBLEMS WERE NOT AT SECTORAL LEVEL, ALTHOUGH SOME ENTIRE INDUSTRIES (SHIPYARDS, PULP/PAPER, COPPER MINING, STEEL) OBVIOUSLY WEAK, BUT AT THE ENTERPRISE LEVEL. ONE-FACTORY TOWNS POSE PARTICULARLY DIFFICULT POLITICAL AND SOCIAL PROBLEMS, BUT CAN BE OVERCOME IN TIME. IN CONNECTION WITH REVISED INDUSTRIAL POLICY, GON EXPECTS THAT UNEMPLOYMENT WILL RISE -- BUT 2.2 PERCENT UNEMPLOYMENT RATE REACHED DURING 1976 IS SEEN AS REALISTIC MAXIMUM BEFORE STRONG COUNTERACTIONS MUST BE TAKEN. NORWEGIAN DEL TOLD EDRC THAT GON RECOGNIZED EARLY IN 1977 THAT INDUSTRIAL/EMPLOYMENT POLICY WAS NOT BRINGING ABOUT THE NECESSARY ADJUSTMENT, BUT WAS UNWILLING (READ UNABLE) TO ALTER POLICY IN POLITICALLY EXPENSIVE DIRECTION IN AN ELECTION YEAR.

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POLICY-MAKING OVER NEXT COUPLE OF YEARS SHOULD NOT, OPINED NORWEGIAN DEL, BE THUS CONSTRAINED.

5. MONETARY AND FISCAL POLICY: GON RECOGNIZES THAT DEMAND PRESSURE HAS BEEN EXCESSIVE AND IS IN PROCESS OF CORRECTING SITUATION USING BOTH FISCAL AND MONETARY POLICY. MONETARY POLICY IS THE LOCUS OF MOST RADICAL BREAK WITH GON POLICY TRADITION AS INTEREST RATES ARE "FREED" TO RESPOND TO MARKET FORCES. BANK OF NORWAY REP RECITED LIST OF UNDESIRABLE FEATURES OF PREVIOUS LOW (NEGATIVE) INTEREST RATE POLICY (E.G., INFLATIONARY, INEFFICIENT, BIAS TOWARD WEALTHY AND INFLUENTIAL), BUT ADDED THAT NORWEGIAN PUBLIC HAD BECOME EMOTIONALLY ATTACHED TO LOW INTEREST RATES. SHIFT TO HIGHER RATES WOULD NECESSARILY BE SLOW WITH TEMPORARY CONCESSIONS FOR CERTAIN SECTORS (HOUSING) -- ALTHOUGH INTENT WAS TO EVENTUALLY ALLOW MARKET TO DETERMINE RATES. ON MONETARY AGGREGATES, BANK OF NORWAY REP SAID SHORT-TERM CAPITAL OUTFLOW DAMPENING MONETARY EXPANSION HAD BEGUN IN SECOND HALF 1977 AND WOULD LIKELY CONTINUE THROUGH 1978. NO SPECIAL INSTRUMENTS WERE CONTEMPLATED TO COUNTERACT IMPACT OF SUCH FLOWS APART FROM ADHERENCE TO CREDIT BUDGET. MONETARY AUTHORITIES PLAN TO LIMIT BOND ISSUES AND LENDING BY STATE BANKS TO HOLD DOWN CREDIT CREATION IN FIRST HALF 1978 -- BUT, AFTER TRANSITION TO MORE REALISTIC INTEREST RATES, LET MARKET EQUILIBRATE DEMAND/SUPPLY FOR CREDIT. 1978 BUDGET ALSO PROPOSES SOMEWHAT TIGHTER FISCAL POLICY; ADDITIONAL MEASURES TO REDUCE PRIVATE CONSUMPTION WILL BE PRESENTED TO PARLIAMENT IN JANUARY, 1978.

6. INCOMES POLICY: NORWEGIAN DELEGATION WAS IN GENERAL AGREEMENT WITH SECRETARIAT'S WAGE DETERMINATION MODEL, LIMITED OFFICIAL USE

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BUT SOUGHT TO EMPHASIZE POSITIVE ROLE OF TRIPARTITE AGREEMENT IN LOWERING CONTRACTUAL WAGE SETTLEMENTS SINCE 1976. SOME PROBLEMS HAVE BEEN ENCOUNTERED IN TRIPARTITE NEGOTIATIONS (E.G., WAGE DRIFT TOO HIGH, UNIONS NEED TO "SHOW SOMETHING" TO MEMBERS AFTER NEGOTIATIONS, RANK AND FILE'S OCCASIONAL UNWILLINGNESS TO ACCEPT "RATIONAL ARGUMENTS" OF CENTRAL UNION LEADERSHIP), BUT GON EXPECTS MODERATE CENTRALIZED AGREEMENT IN 1978, WITH A "JACKPOT" RESERVED FOR LOCAL NEGOTIATIONS DESIGNED TO REDUCE WAGE DRIFT ALONG WITH IMPACT OF WEAKER LABOR MARKET. GON FORESEES NO SCOPE FOR TAX CONCESSIONS IN 1978 NEGOTIATIONS, APART FROM COMMITMENT NOT TO RAISE TAXES. NORWEGIAN DEL AGREED WITH ANALYSIS PARIS 36226, PARA. 9A THAT ADJUSTING AND READJUSTING WAGE DIFFERENTIALS AND INCOME SHARES GENERATED RACHET EFFECT RAISING OVERALL WAGE LEVEL, BUT ADDED THAT

SUBJECT WAS POLITICALLY SENSITIVE AND THEREFORE SURVEY SHOULD NOT BE TOO EXPLICIT IN EXPLAINING RELATIONSHIP. OIEN, RESPONDING TO QUESTION, STATED THAT WAGE SHARE HAD, IN OPINION OF FINANCE MINISTRY, INCREASED TOO MUCH, SQUEEZING PROFITS, HARMING LONG-RUN INVESTMENT OUTLOOK, THUS HINDERING ADJUSTMENT PROCESS. HE ADDED THAT THIS VIEW NOT SHARED BY ALL GON MINISTRIES, A FACT BORNE OUT IN STATEMENT BY NORWEGIAN LABOR MINISTER DAY EARLIER (IN BIAC CONSULTATION PRIOR TO CONFERENCE ON YOUTH UNEMPLOYMENT) TO EFFECT THAT ANY INCREASE IN LABOR SHARE WAS DESIRABLE AND NO POLICY STEPS SHOULD BE TAKEN TO REDUCE WAGE SHARE.

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7. EXTERNAL SECTOR: WHILE NOT QUESTIONING THAT SOME RECOVERY OF COMPETITIVENESS REQUIRED, NORWEGIAN DEL FELT THAT SIZE OF CURRENT ACCOUNT DEFICIT EXAGGERATES DEGREE OF DETERIORATION IN COMPETITIVE POSITION. GON BELIEVES EXCHANGE RATE ADJUSTMENT HAS GONE TOO FAR (ESPECIALLY GIVEN HIGH DOMESTIC INFLATION) AND WOULD LIKE SOME DEPRECIATION TO IMPROVE COMPETITIVENESS. MAINTENANCE OF KRONA IN "SNAKE" AND RAPID APPRECIATION OF GERMAN MARK ARE WORRISOME IN THIS REGARD ACCORDING TO NORWEGIAN DEL.

IMPROVED CURRENT ACCOUNT POSITION EXPECTED IN 1978 DUE TO ARRIVAL OF OIL REVENUES AND SHARP SLOWDOWN IN IMPORTS DUE TO (A) RESPONSE TO RESTRICTIVE FISCAL POLICY; (B) REDUCED INVESTMENT REQUIREMENTS FOR OFFSHORE SECTOR; AND (C) CHANGES IN THE COMPOSITION OF DEMAND TOWARD DOMESTIC SOURCE SECTORS (LOWERING IMPORT ELASTICITY). NORWEGIAN DEL UNABLE TO GIVE PROJECTIONS FOR OIL/GAS REVENUES, BUT STATED THAT NORWAY ALREADY NET EXPORTER, AND THAT EXPORTS BY 1985 SHOULD BE SIX TIMES DOMESTIC LIMITED OFFICIAL USE

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CONSUMPTION.

8. CONCLUSIONS: NORWEGIAN DEL WAS ANXIOUS TO PLACE NEW GON POLICY PACKAGE IN CONTEXT OF OECD/EDRC RECOMMENDATIONS -- ARGUING IMPLICITLY THAT GON (OR POSSIBLY MINISTRY OF FINANCE) NEEDS AMMUNITION TO BACK ITS CASE IN SELLING DEFLATIONARY ADJUSTMENT POLICY TO PARLIAMENT AND PUBLIC. ACCORDING TO SECRETARIAT AND NORWEGIAN DEL, WINDFALL OIL REVENUES COULD EASILY BE SQUANDERED IN PROPING UP TRADITIONAL INDUSTRIES, THUS PREVENTING REAL ADJUSTMENT TO NEW REALITIES OF NORWEGIAN ECONOMIC SITUATION. NORWEGIAN DEL EXPLAINED THAT SITUATION NOT CRITICAL IN SHORT RUN DUE TO AVAILABILITY OF OIL REVENUE, THUS SURVEY SHOULD NOT OVERDRAMATIZE NORWEGIAN "PLIGHT" BUT SHOULD PRESENT CLEAR RATIONALE FOR ADJUSTMENT IN MEDIUM-TERM CONTEXT. EDRC REACHED FOLLOWING PRINCIPAL CONCLUSIONS: (A) INCOMES POLICY HAS WORKED AS WELL AS COULD BE EXPECTED; (B) DOMESTIC DEMAND PRESSURE HAS BEEN HIGHER THAN DESIRABLE, BUT STRONGER MONETARY POLICY AND SOMEWHAT TIGHTER FISCAL POLICY (CONSISTENT WITH TRIPARTITE AGREEMENTS) SHOULD HELP CONTROL; AND (C) DEMAND PRESSURE COULD ALSO BE EASED BY REVISED INDUSTRIAL POLICY, PROMOTING INTERNAL ADJUSTMENT RATHER THAN SUBSIDIZING NON-COMPETITIVE PRODUCTION.

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